

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Discovery Science Center of Orange County dba Discovery Cube (Discovery or Borrower)	<b>Amount Requested:</b>	Not to exceed \$18,000,000
<b>Applicant Description:</b>	Discovery is a California nonprofit public benefit corporation, founded in 1998 that operates as an interactive science center located in Santa Ana, CA, with focus on children up to 14 years old.		
<b>Type of Financing:</b>	Tax-exempt obligations		
<b>Project Description:</b>	The project (Project) involves the following three phases: 1) Renovation of the existing 57,000 square foot Discovery building and the expanded 44,500 square foot California Natural Resources Pavilion scheduled to be completed in June 2015; 2) a new Life Sciences Building and Discovery Environmental Pavilion and construction of a green parking lot scheduled to be completed by 2018; and 3) expansion of the campus, including buildings, exhibits, and the IMAX Theater estimated to be completed by 2021.		
<b>Project Site:</b>	2500 North Main Street, Santa Ana, CA 92705 and 301 Main Place Drive, Santa Ana, CA 92705 (Orange County)		
<b>Plan of Finance:</b>	IBank will issue fixed rate tax-exempt obligations in the principal amount not to exceed \$18 million (the "Tax-Exempt Obligations") through private placement to Farmers and Merchants Bank of Long Beach (the "Lender") and loan the proceeds of the Tax-Exempt Obligations to the Borrower to a) finance and refinance the costs of the first phase of the Project (the "Borrower Loan" and, together with the Tax-Exempt Obligations, the "Transaction") and b) pay certain costs of issuance.		
<b>Type of Issue:</b>	Private Placement, Fixed Rate Obligations		
<b>Tax Status:</b>	Tax-Exempt		
<b>Term:</b>	26 Years		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Unrated		
<b>Fees:</b>	Application Fee \$1,500; Issuance Fee \$35,500; Annual Fee \$500 per year		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Direct Loan	\$18,000,000	Building Improvements	\$15,000,000
		Parking Lot/Improvements	2,765,000
		COI	235,000
<b>TOTAL SOURCES</b>	<b>\$18,000,000</b>	<b>TOTAL USES</b>	<b>\$18,000,000</b>
<b>Financing Team:</b>	<b>Bond Counsel:</b>	Kutak Rock LLP	
	<b>Borrower's Counsel:</b>	Stradling, Yocca, Carlson & Rauth LLP	
	<b>Financial Advisor:</b>	Dowdell Consulting	
	<b>Purchaser/Lender:</b>	Farmers and Merchants Bank of Long Beach (F&M Bank)	
<b>Public Benefits:</b>	Discovery's campus expansion projects will allow Discovery to support over 750,000 children and adults annually through its educational programs and exhibits. The Project is expected to add 50 additional staff to Discovery's current 175 staff. Discovery also has over 1500 volunteers, and provides vital and critical educational support programs to moderate to low income students and educators including some in California's most economically distressed areas. The Project will also allow Discovery to reduce its energy and water costs by \$36,000 per year, in addition to reducing debt services costs by \$130,000.		
<b>Date of Board Meeting:</b>	<b>Resolution Number:</b>	<b>Prepared by:</b>	
6/9/2015	15-09	John Belmont	
<b>Staff Recommendation:</b> Staff recommends approval of the Resolution 15-09 authorizing the issuance of Tax-Exempt Obligations in an amount not to exceed \$18,000,000 to be sold to F&M Bank as a direct purchase transaction and loaning the proceeds of the sale of the Tax-Exempt Obligations to Discovery.			

## BACKGROUND AND HISTORY

Discovery is an interactive science center located in Santa Ana, CA, which focuses on children up to 14 years old. Discovery is a private 501(c)(3) corporation whose mission is “to inspire and educate young minds through science based programs and exhibits, to create a meaningful impact on the communities we serve”. Discovery founded in 1998 and has been at its current 59,000 sq. ft. facility in Santa Ana since then.

Since its establishment in 1998, Discovery has not had a major renovation. The new renovation and expansion will double the current exhibit space and provide even more hands-on educational programming in support of core initiatives: Science, Technology, Engineering, Math Proficiency, Environmental Stewardship, Early Learning, and Healthy Living.

Discovery has been recognized for its superior quality of education and guest service by national and local media including Parents Magazine, the Travel Channel, the Orange County Business Journal, Best of LA, and the Orange County Register. In addition, it was recently awarded the “National Medal of Service” by the Institute of Museum and Library Services. Discovery is ranked in the top 25 among U.S. science centers for the number of visitors.

Current leadership is listed in Appendix A.

## PROJECT DESCRIPTION

The Discovery Science Center of Orange County - Santa Ana campus expansion is projected to cost \$22 million dollars, which includes all building and exhibit construction development, and the land acquisition and development of property adjacent to Discovery into a surface parking lot. This scope will be scaled into three phases, with priority given to Phase I that generates the highest return on investment via incremental revenues driven by attendance. Project costs and the proposed phases are:

**Phase I:** a renovation of the existing 57,000 square foot Discovery Science Center building, and the expanded 44,500 square foot CA Natural Resources Pavilion. Phase I building improvements will be completed in June 2015.

**Phase II:** A new Life Sciences Building & Discovery Environmental Pavilion, and construction of the Greenest Parking Lot in the World. Phase II improvements are scheduled to be completed by 2018.

**Phase III:** The remaining scope of the campus expansion, including all remaining buildings, exhibits, and the IMAX Theater. The final phase of the improvement plan is estimated to be completed by 2021.

See Appendix B--Project Photos.

## FINANCING STRUCTURE

<b>Bond Par Amount:</b>	\$18,000,000; Tax-Exempt	
<b>Type of Offering:</b>	Private Placement	
<b>Lender:</b>	Farmers and Merchants Bank of Long Beach (F&M Bank)	
<b>Credit Enhancement and Expected Credit Rating:</b>	None	
<b>Interest:</b>	Not to exceed 3%, fixed for 10 years (provided the Transaction Documents may provide for default rates and other contingent increases in interest rate).	
<b>Maturity:</b>	26 Years, on June 1, 2041	
<b>Collateral:</b>	1 <sup>st</sup> Trust Deed & UCC-1 filing on 2500 N. Main Street, Santa Ana, CA & 301 Main Place Drive, Santa Ana, CA including all development assets of the project.	
<b>Limited Guarantees:</b>	Five Guarantors, with Total Guaranty amount of \$5,500,000.	
<b>Guarantors:</b>	H & S Investments I, LP	\$1,500,000
	James W Ray	\$1,500,000
	David Horowitz	\$1,000,000
	James J Peterson	\$1,000,000
	John H Norberg III	\$ 500,000
	<b>Total Guarantees</b>	<b>\$5,500,000</b>

### More Details

Discovery desires to refinance and convert its \$18,000,000 taxable debt (current interest rate - 4%) with F&M Bank, used to finance the Phase I expansion, into tax-exempt debt. IBank will issue the Tax-Exempt Obligations that F&M Bank will purchase on a private placement basis and IBank will loan the proceeds to the Borrower under the Loan Agreement. The Loan is non-revolving. Any portion of the Loan repaid may not be relent. Purpose of financing is:

- a) Refunding of the Borrower's prior obligations (the obligations of the Borrower under certain Promissory Note, dated December 17, 2013, in the original aggregate principal amount of \$18,000,000 and currently outstanding in the approximate principal amount of \$15,000,000.); and
- b) To reimburse the Borrower for certain preliminary expenditures incurred in connection with the Project and to pay certain costs of issuance in connection with the loan.

Loan Payments will be made on 1<sup>st</sup> day of each month after the Closing Date based on the following schedule: Interest only from: July 1, 2015 – August 1, 2016; Principal and Interest payments from: August 1, 2016 – June 1, 2041 in the amount of approximately \$99,764.69 based on a 25 year amortization schedule with all outstanding principal and interest due at maturity. Interest rate for the first 10 years will be fixed at 2.95%. The Loan is subject to prepayment but can be extended by the F&M Bank for up to an additional 15 years.

This financing will reduce the Project's interest expenses. Completion of the Project will also improve Discovery's energy and water usage and efficiency. Discovery will be able to reduce its energy and water costs by \$36,000 a year, and reduce debt service costs by \$130,000.

### **Limited Obligations of IBank**

Neither IBank nor any of its officers, its employees or any person executing the Loan Agreement on behalf of IBank shall be liable personally on the Tax-Exempt Obligations or subject to any personal liability or accountability by reason of the execution thereof. The Tax-Exempt Obligations are limited obligations of IBank, payable solely from and secured by the pledge of the Payments under the Loan Agreement. Neither IBank nor any of the members of its Board of Directors, the State of California, or any of its political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the Tax-Exempt Obligations, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Tax-Exempt Obligations are not a pledge of the faith and credit of IBank, the State of California or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. IBank has no taxing power.

IBank shall not be liable for the payment of the principal of, prepayment premium, or interest on the Transaction or any other costs, expenses, losses, damages, claims or actions of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement or any other documents, except only to the extent amounts are received for the payment thereof from the Borrower under the Loan Agreement.

## **PUBLIC BENEFITS**

The Project is being funded with tax-exempt proceeds, which will allow Discovery to support over 750,000 children and adults annually through its educational programs and exhibits. Discovery's exhibits, field trips and assembly programs allow kids to think and have hands-on experiences. It also offers professional development for educators to provide cutting-edge methods for instruction, high quality lesson plans, and hands-on activities to integrate into the classroom. Currently Discovery employs more than 175 staff, in addition to the over 1,500 volunteers, enabling Discovery to deliver programs throughout Los Angeles, Orange, Riverside and San Bernardino counties. The Project will further allow Discovery to expand its programming and add 50 additional staff as a direct result of this financing. In addition, Discovery provides vital and critical educational support

programs for moderate to low income students and educators through its programs to some of California's most economically distressed areas.

In addition to hosting permanent and traveling science exhibits at its Santa Ana campus, Discovery also offers off-site programs in schools including science classes, a national after school program, teacher professional development, and science camps, reaching approximately 250,000 people in the community in addition to the 458,000 visitors in the past fiscal year.

**Accomplishments:**

- “National Medal of Service” – In 2013, First Lady Michelle Obama and The Institute of Museums and Library Services honored Discovery for making significant and exceptional contributions to its community. It is only the fifth science center in the US, and the first in California, to receive this award.
- Top Three Nationwide – In its 2011-12 fiscal year, Discovery’s award winning outreach programs served over 220,000 students in classrooms; ranking it in the top three among science centers across the nation.
- Top 25 Nationwide – Over 526,000 visitors in fiscal 2011-12 moved Discovery into the top twenty-five among science centers across the nation.
- 2012 “SWANA Award” – the Solid Waste Association of North America awarded Discovery its Silver award for the nation’s best new educational program related to recycling and waste reduction for Discovery’s Eco Challenge exhibit and related outreach programs in Southern California schools.
- The Only Smithsonian Affiliate in Orange County –Discovery recently qualified as a new Smithsonian Affiliate, a tribute to the quality of its management. This designation allows Discovery to present traveling Smithsonian exhibitions, display priceless national treasures, and engage leading experts in their fields in public learning opportunities.

## OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA	May 22, 2015
Publications	Sacramento Bee Orange County Register
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. Discovery is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by Discovery to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate for the Project.</li> </ol>
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES      Certificate No.: <input checked="" type="checkbox"/> N/A                      Date:

## RECOMMENDATION

Staff recommends approval of Resolution 15-09 authorizing the issuance of Bonds/Obligations for an aggregate amount not to exceed \$18,000,000 for the benefit of Discovery Science Center of Orange County.

**APPENDIX A GOVERNANCE AND MANAGEMENT**

<b>BOARD OF DIRECTORS</b>	
MR. JOE ADAMS	PRESIDENT, DISCOVERY SCIENCE CENTER
MR. RICK BAILY CHAIRMAN	VICE PRESIDENT, ENGINEERING & MISSION ASSURANCE, BOEING DEFENSE, SPACE & SECURITY, THE BOEING COMPANY, CHAIRMAN
MS. RENÉE BANNASCH	GENERAL PARTNER, PREMIER INNS OF AMERICA & EZ-8 MOTELS
MR. ANDEREE BERENGIAN	MANAGING DIRECTOR, RESVEN PARTNERS
MR. JEFF BENCK OFFICER AT LARGE	PRESIDENT & CHIEF OPERATING OFFICER, EMULEX
MR. DAN BOLAR	PARTNER, BOLAR HIRSCH & JENNINGS LLP
MR. MICHAEL G. CONNOLLY	VICE PRESIDENT & CLIENT DIRECTOR, IBM
MS. KENDRA M. DOYEL	GROUP VICE PRESIDENT, PUBLIC RELATIONS AND GOVERNMENT, RALPHS GROCERY COMPANY
MR. GARY GREEN	EXECUTIVE VICE PRESIDENT, REGIONAL MANAGER, CALIFORNIA BANK & TRUST
MR. TIMOTHY HENDERSON	EXECUTIVE DIRECTOR, PRIVATE BANKER, JP MORGAN PRIVATE BANK
MS. EMILY HOROWITZ	VICE PRESIDENT, HOROWITZ GROUP
MR. CARL JORDAN	SENIOR VICE PRESIDENT AND REGIONAL MANAGER, US BANK
MS. AMY KAVANAUGH	VICE PRESIDENT, PUBLIC AFFAIRS & ENGAGEMENT, TACO BELL CORP.
MR. STEVEN LITCHFIELD	SENIOR VICE PRESIDENT & CHIEF STRATEGY OFFICER, MICROSEMI, INC.
MR. STEVE MARCONI	FOLINO FAMILY FOUNDATION
MR. TOM MCDORMAN OFFICER AT LARGE	VICE PRESIDENT, CORPORATE DEVELOPMENT, WESTERN DIGITAL
MR. AL MIJARES	SUPERINTENDENT, ORANGE COUNTY DEPARTMENT OF EDUCATION
MR. JEET MUKHERJEE	SENIOR DIRECTOR OF STRATEGIC DEVELOPMENT AND ANALYTICS, INGRAM MICRO NORTH AMERICA
MR. ROBERT MYERS	CHIEF FINANCIAL OFFICER & CHIEF OF STAFF, WEST COAST REGION, WELLS FARGO
MR. JACK NORBERG BOARD VICE CHAIRMAN	CHAIRMAN & FOUNDER, STANDARD INVESTMENT CHARTERED, INC.
MS. CINDY OMIYA SECRETARY	SENIOR VICE PRESIDENT & CONTROLLER, THE CAPITAL GROUP COMPANIES

THE HONORABLE MIGUEL A. PULIDO	MAYOR, CITY OF SANTA ANA
MR. J. EDWARD QUINLAN, JR.	MARKET PRESIDENT, SOUTHERN CALIFORNIA, HUMANA
MR. JAMES "WALKIE" RAY	GENERAL PARTNER, SANDERSON J. RAY DEVELOPMENT
MR. JEFFREY H. REEVES BOARD VICE CHAIRMAN	PARTNER IN CHARGE, GIBSON, DUNN & CRUTCHER, LLP
MR. DAVID E. ROFSKY	SENIOR VICE PRESIDENT, GLOBAL COMMERCIAL BANKING, BANK OF AMERICA
MR. STANTON ROWE	CORPORATE VICE PRESIDENT, ADVANCED TECHNOLOGY & CHIEF SCIENTIFIC OFFICER, EDWARDS LIFESCIENCES CORPORATION
MS. CHERYLL RUSZAT	OWNER, MONTESSORI SCHOOLS OF IRVINE
MR. RODGER SCHWECKE	VICE PRESIDENT, CUSTOMER SOLUTIONS, SOUTHERN CALIFORNIA GAS COMPANY
MR. PAUL SHORT BOARD TREASURER	PARTNER, KPMG LLP
*MR. MARK SKAIST	PARTNER, CORPORATE DEPARTMENT, STRADLING, YOCCA, CARLSON & RAUTH
MR. HARRISON SMITH	CHIEF OPERATING OFFICER, MACGILLIVRAY FREEMAN FILMS
MR. DEL STAGG, PH.D.	COMMUNITY LEADER

**OFFICERS**

Joe Adams	President
Mike McGee	Vice President and Chief Financial Officer & Human Resources
Janet Yamaguchi	Vice President - Education
Kellee Preston	Vice President - Operations
Mike Wheeler	Vice President - Marketing & Sales

\*Staff has confirmed that the decision to retain Stradling as general corporate counsel to Discovery was made by its Board of Directors independently of this financing and without the involvement of Mr. Skaist.



APPENDIX B PROJECT PHOTOS



